



COST CONTAINMENT STRATEGY

MAY 2016

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1. BACKGROUND

The Municipal Finance Management Act No. 56 of 2003 (MFMA), Section 62(1)(a) stipulates that the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the scarce resources of the municipality are used effectively, efficiently, and economically.

In the State of the Nation Address, cost containment measures were emphasised. It was highlighted that excessive and wasteful expenditure must be reduced, and increased action must be taken to manage unnecessary expenditure.

The Minister of Finance, in his Budget Speech in February 2016, reinforced this message, and urged Mayors of municipalities to exercise and oversee the elimination of wasteful expenditure in government.

In March 2016, National Treasury released MFMA Circular No. 82, "Cost Containment Measures", the purpose being:

"... to guide municipalities and municipal entities on cost containment measure that must be implemented in an effort to address the impact of the country's economic challenges and to promote growth, address unemployment and equality ..."

The Circular further stated:

"Municipalities must make clear and quantified commitments in this regard when tabling their upcoming budgets, and to reference these commitments when submitting budget documentation to the National and Provincial Treasuries, as required by the MFMA."

Thulamela Local Municipality has therefore determined that it is necessary to adopt a Cost Containment Strategy to give effect to MFMA Circular No. 82.

MFMA Circular No. 82 is attached to this Strategy as Annexure A.

2. SPECIFIC ELEMENTS OF THE STRATEGY

a. ENGAGEMENT OF CONSULTANTS

It is the Policy of Thulamela Local Municipality that consultants may only be engaged if the following conditions have been met:

- I. The Accounting Officer must conduct a Gap Analysis to confirm that Thulamela Local Municipality does not have the requisite skills or resources in its permanent employment to perform the services required.
- II. There must be evidence that acute planning of the project has taken place, and such evidence must be visible to the administration and political oversight structures in place at Thulamela Local Municipality.
- III. Consultants, including construction and infrastructure-related services, must only be remunerated at the rates equal to or below those:
 - a. Determined in the “Guidelines on fees for audits done on behalf of the Auditor-General South Africa”, issued by the South African Institute of Chartered Accountants (SAICA)
 - b. Set out in the “Guide on Hourly Fee Rates for Consultants”, by the Department of Public Service and Administration
 - c. Prescribed by the body regulating the profession of the consultant.
- IV. The tender must be accompanied by an exacting specification of the work to be accomplished, and such specification must be appropriately recorded and monitored.
- V. Contracts for consultants must include retention and penalty clauses for poor performance, and Accounting Officers must enforce such clauses when necessary.
- VI. The Accounting Officer must seek the best “value for money” by matching fees against quality and against benchmarked practices.
- VII. The Accounting Officer must appoint consultants on a time and cost basis, with specific start and end dates.
- VIII. Travel and subsistence costs for the appointment of consultants must be in accordance with the travel policy of government, and the contract price must specify all travel and subsistence costs.
 - a. Hotel accommodation may not exceed the amount mentioned in this Strategy.
 - b. Only economy class air tickets may be purchased.
 - c. Only Group B vehicles or lower may be hired for engagements.

- d. Kilometres claimed for use of private vehicles may not exceed the rates approved by the National Department of Transport, as updated from time to time.
- IX. If travel and subsistence costs for appointed consultants are exclusive of the contract, the costs must be in accordance with the following provisions:
- X. All engagements of consultants must be in accordance with the Supply Chain Management Regulations and with the Thulamela Local Municipality Supply Chain Management Policy.

b. TRAVEL AND SUBSISTENCE

National Treasury has negotiated improved upfront discounts for flights and accommodation rates. Thulamela Local Municipality will utilize these agreements.

I. AIR TRAVEL

National Treasury has negotiated with the two “Full Service Carriers” (SAA and BA) for discounted rates for government officials for domestic air travel.

- For SAA, the discounts range from 5% (L Class) up to 30% (Y Class) for Economy Class tickets; and 10% (D Class) up to 26% (C Class) for Business Class tickets. Business Class is not permitted, unless a single flight exceeds 5 hours, in which case the Accounting officer may allow consideration.
- For BA, the discounts range from 10% (O, Q Class) up to 25% (Y Class) for Economy Class tickets; and 20% (J Class) for Business Class tickets. Business Class is not permitted, unless a single flight exceeds 5 hours, in which case the Accounting Officer may allow consideration.
- The Accounting Officer must include a clause in travel documentation that travel agencies are only permitted to make travel arrangements on behalf of Thulamela Local Municipality in line with MFMA Circular No. 82.

II. DOMESTIC HOTEL ACCOMMODATION

National Treasury has negotiated maximum allowable rates with four hotel groups, being:

- Premier Group
- Protea Hotels
- City Lodge
- Tsogo Sun

Specific rates for Domestic Hotel Accommodation are set forth in the attached Annexure A.

The Accounting Officer must ensure that oversight accommodation is limited to instances where the distance travelled by road by the official exceeds 500 kilometres to and from the destination (return journey).

The Accounting Officer must advise travel agencies that booking arrangements on behalf of Thulamela Local Municipality must be made in accordance with MFMA Circular No. 82.

III. VEHICLE HIRE

The following issues will inform the use of hired vehicles:

- Thulamela Local Municipality will consider using its own fleet prior to the hiring of vehicles.
- Officials must make use of shuttle services if the cost of such a service is less than the cost of hiring a vehicle.
- Officials must make use of shuttle services if the cost of kilometres plus the cost of parking claimable by the official is greater than the cost of the shuttle services.
- Vehicles may only be hired from a category below Group B or an equivalent class. Officials may accept a vehicle from an up-graded group of hired vehicles if such an up-grade is offered at no extra charge.
- Vehicle claims by officials must be restricted to actual distance travelled in excess of the normal distance travelled from the official's residence to his / her place of work.

c. CREDIT CARDS

No official or councillor of Thulamela Local Municipality may use any credit card or debit card linked to any bank account of the municipality.

Where officials or councillors incur expenses with respect to their official municipal activities, they should use their personal credit cards or cash, and request reimbursement from the municipality in accordance with the relevant policy.

The use of petrol cards or garage cards is permitted, but must be in accordance with the relevant policy.

d. CATERING COSTS

Catering costs incurred by Thulamela Local Municipality will be governed by the following rules:

- Catering costs may not be incurred for any meetings where only Thulamela Local Municipality officials are in attendance.
- The Accounting Officer may incur catering expenses for the following, provided that such lasts for five continuous hours or more:
 - The hosting of conferences, workshops, courses, forums, recruitment interviews, training courses, hearings
 - Meetings related to commissions or committees of inquiry
- Entertainment allowances for qualifying officials may not exceed R2,000.00 per official per financial year. The Qualifying Officials are:
 - The Mayor
 - The Speaker
 - The Chief Whip
 - All full time councillors
 - All section 56 and 57 managers
- No expenses may be incurred for alcoholic beverages.
- Team-building and other social functions, including year-end functions, may not be financed from the municipal budget.
- Thulamela Local Municipality will not solicit, nor will it accept unsolicited, the financing (whether financial or “in-kind”) of any team-building or other social functions, including year-end functions, from suppliers or other sponsors.
- Thulamela Local Municipality will not host farewell functions for any officials who have:
 - Been dismissed
 - Elected to resign or leave by accepting severance packages

- Have reached the end of their contractual term
- Thulamela Local Municipality may host farewell functions for officials (provided that the expenditure does not exceed the petty cash or other limitation on such expenditure) for any officials who are:
 - Proceeding on retirement due to ill health
 - Proceeding on retirement after reaching the qualifying age limit of a minimum of ten or more years working for the Municipality

e. EVENTS, ADVERTISING AND SPONSORSHIPS

Thulamela Local Municipality will eliminate expenditure on events and advertising in magazines, radio, television, newspapers, and periodicals, where it can be determined that other effective means (such as the municipal website) can be used to market the municipality or properly publicise the matter or event under consideration.

Notwithstanding the above, this does not apply to advertising or publishing matters required by legislation, such as notice of tenders.

Memorabilia, gifts, and other novelties must be of token value only, and will only be offered by Thulamela Local Municipality in order to acknowledge support of a visit or attendance by a dignitary in connection with a benefit to Thulamela Local Municipality or the local community, or to reciprocate the giving of a similar token gift by another organisation.

Thulamela Local Municipality will eliminate all unnecessary expenditure on matters such as printing of shirts, hosting of sporting events, festivals and other associated events, cruises, lavish functions, and extraordinary costs associated with visits of dignitaries of induction of new councillors.

f. CONFERENCES, MEETINGS, STUDY TOURS

Expenditure on these items will be governed by the following rules:

- Officials may attend conferences hosted by professional bodies or non-governmental institutions held within the borders of South Africa, provided that the total expenses related to their attendance does not exceed R2,500.00 per person per day.
- The number of officials attending such conferences or meetings is limited to three officials, unless otherwise approved in advance by the Accounting Officer, having due regard to the Cost Containment Strategy.
- Officials must make every effort to take advantage of early registration discounts by seeking the required approvals to attend well in advance.

- No late registrations will be acceptable.
- Conferences outside the borders of South Africa must have specific approval of the Accounting Officer in writing in advance of any expenditure being made.
- Thulamela Local Municipality must utilise municipal facilities for conferences, meetings, strategic planning sessions, etc. where such appropriate facilities exist.
- Thulamela Local Municipality will eliminate any overseas trips and the delegations going on such trips unless a clear and tangible benefit to the local community and performance of essential service provision has been established beforehand.
- The number of officials travelling by air to other centres to attend an official engagement is limited to three officials, unless otherwise approved in advance by the Accounting Officer, having due regard to the Cost Containment Strategy.

g. OFFICE FURNISHING

Thulamela Local Municipality will exercise due precaution in refurbishing offices and purchasing equipment, especially when new persons are elected or appointed. The use of existing facilities and equipment is specifically encouraged.

When required, and approved by the Accounting Officer, the purchasing of office furniture and equipment will be contained to minimal costs; elaborate and expensive furniture and equipment will be avoided.

h. OTHER EMPLOYEE COSTS

It shall be the Policy of Thulamela Local Municipality that:

- Training attended by officials or Councillors must be at pre-approved service providers, to ensure sufficient quality of training and value-for-money.
- Expenditure associated with overseas study tours by Councillors or officials shall not be allowed unless specifically approved in advance by Council Resolution.

- Officials are encouraged to take time off in lieu of payment for overtime worked.
- Planned overtime must be submitted to and approved by the Accounting Officer or his designate on a monthly basis.
- Unplanned overtime must be motivated to and approved by the Accounting Officer or his designate on a monthly basis.
- Thulamela will eliminate all costs associated with long-standing staff suspensions and legal costs associated with not following due processes when suspending and dismissing staff.
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i. OTHER ITEMS

It shall be the policy of Thulamela Local Municipality that:

- The Accounting Officer will ensure that all commodities and products that National Treasury has designated as transversal contracts are utilised to benefit from savings where lower prices or rates have been negotiated.
- When appropriate, threat assessments against key officials and Councillors should be undertaken by SAPS and reported to the Speakers Office. Approval for security measures must be informed by such reports.
- Traffic officials may not be used for security purposes.
- The printing of documents and use of colour printing must be carefully controlled, while use of electronic means is preferred.
- Municipal funds may not be used to fund election campaign activities, including the provision of supporting material, clothing, food, inducements to vote either as part of or during election rallies.
- Every effort will be made to recover debt from consumers before write-off; excessive use of debt collectors will be avoided.
- Where possible, warranties on vehicles and computer equipment will be extended instead of procuring new ones.

- Purchasing of newspapers and other publications for officials will be eliminated, except where required by other legislation (as for example, proof of advertising of tenders).

1. IMPLEMENTATION

This Cost Containment Strategy shall be tabled for Council approval at the same time as the 2016-2017 Budget and other Budget-Related Policies.

It shall be implemented effective July 1, 2016.

This Strategy shall be reviewed annually along with all other Budget-Related Policies and tabled for Council approval at the same time as all other budget documentation.

2. ACCOUNTABILITY

The Accounting Officer shall be responsible for the implementation and administration of the Cost Containment Strategy.

The Accounting Officer hereby delegates the responsibility for the implementation and administration of the Cost Containment Strategy to the Senior Manager, Corporate Services.

At the direction of the Accounting Officer, but at least quarterly, the Senior Manager, Corporate Services shall report to the Accounting Officer on the implementation and administration of the Cost Containment Strategy.

The Accounting Officer will subsequently report to the Executive Committee and the Municipal Public Accounts Committee on the implementation and administration of the Cost Containment Strategy, as well as any additional measures to be taken.